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For Immediate Release
August 12, 2002

Bringing Together More Than $1 Trillion of Assets, State Fiscal Leaders Expand Efforts to Protect Investors

McCall, Moore, and Angelides Initiative to Include More States, More Issues

In a growing bi-partisan, national effort to protect investors, New York State Comptroller H. Carl McCall, North Carolina Treasurer Richard Moore and California State Treasurer Philip Angelides today brought together public financial leaders from 17 states and the District of Columbia to expand the drive for improving corporate accountability and restoring integrity to the financial markets. New York State Attorney General Eliot Spitzer, who was instrumental in developing the conflict of interest principles in the agreement reached with Merrill Lynch earlier this year, addressed the group on conflict of interest issues and federal changes.

Representatives at today's investor summit included fiduciaries for more than $1 trillion of assets invested on behalf of tens of millions of pensioners and taxpayers. The attendees included State treasurers, pension fund officials from state and teachers retirement systems, and city officials including New York City Comptroller William Thompson.

Angelides, Moore and McCall said their primary goal was to mobilize large investors to use the power of the purse to demand corporate integrity, strengthen accountability to investors, and ensure that recently enacted reforms are fully implemented and aggressively enforced. They urged their peers to adopt the Investment Protection Principles that demand higher standards of scrutiny and disclosure from money management firms and investment banks, and discussed possible additional actions by States to address developments that have impacted the value of all of these funds' holdings.

Today's meeting marked the beginning of a renewed era of activism by public institutional shareholders. As a starting point, the group considered action on the following fronts:

- *CONFLICTS OF INTEREST* – adopting principles to eliminate conflicts of interest between stock research analysts and investment banks, so that investors will have true and accurate information, and to ensure that money managers adhere to the highest standards of ethics and disclosure.
- *CORPORATE ACCOUNTABILITY* – mobilizing as major shareholders to help ensure that recently enacted reforms – by the federal government, the New York Stock Exchange and NASDAQ – are fully and promptly implemented and enforced to achieve maximum impact.
- *EXPATRIATE CORPORATIONS*– condemning the practice where publicly-held U.S. corporations relocate offshore, in name only, to avoid taxes and weaken shareholder protections, and will take appropriate action to thwart this egregious conduct.

-More-

In addition to the three states above, representatives attended from Connecticut, Colorado, Florida, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, Ohio, Oregon, Pennsylvania, as well as the District of Columbia, the California and New York State Teachers' Retirement Systems, the cities of New York and Hartford. (List attached).

Moore said, "Today, we as trustees of pension funds for millions of public workers, are joining together to make a strong commitment in helping to bring about change in the marketplace. We are exercising our rights of ownership, not only to insure the safekeeping of public retirement monies invested in the marketplace, but to also bring about reforms that will benefit the more than 80 million Americans who participate in these public markets. Additionally, we are pursuing new and more direct lines of communication with corporate boards of directors. They work for us, and we need to give them better information as to what we expect from them."

McCall said, "Millions of investors across this nation have been scarred by the culture of greed and ethical lapses that invaded our corporate boardrooms. Regulations are important but not enough. We represent all investors in an attempt to send a clear message that corporations will need to compete on an ethical playing field if they want our business."

Angelides said, "Institutional investors own 46% of the stock in this country, which means we have the opportunity and responsibility to require the corporations we own to adhere to the highest standards of integrity and ethical conduct. Today, we vow to use our financial clout to protect families, taxpayers and pensioners from corporate malfeasance, and to ensure that newly enacted legislative and regulatory reforms are aggressively enforced."

Spitzer said, "As evidenced by the number of states represented here today, the Investment Protection Principles already are having a significant impact on the marketplace. The public outcry for redress from pervasive corporate deception can only be answered through effective leadership both by regulators and major investors who are prepared to insist that their funds be invested only in companies that warrant the public trust. What you see today is just the beginning of our efforts to restore integrity to Wall Street investment firms."

Last month, in the first coordinated action of its kind by public institutional investors, Angelides, Moore and McCall imposed Investment Protection Principles in their respective states which called for elimination of conflicts of interest and higher standards of disclosure by investment banking firms and money managers that do business with the states. They emphasized the great benefits that this initiative will provide to the general investing public. Combined, these states will contract with virtually every major investment banking firm, and promoting adherence to the Investor Protection Principles will benefit all investors, not just the states.

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Comptroller H. Carl McCall is the sole trustee of the New York State Common Retirement Fund, which is the second largest public pension fund in the country with approximately $112 billion in investments.

Treasurer Richard Moore is the sole trustee of the North Carolina Public Employees Retirement System, which is the 10th largest state public pension fund with approximately $60 billion in investments.

California Treasurer Philip Angelides manages California's Pooled Money Investment Account, which has $45 billion in taxpayer funds. Treasurer Angelides also sits on the governing boards of the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS).

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Investors' Summit Participants
August 12, 2002

Hon. Phil Angelides	Treasurer, California
Adam Blumenthal	New York City Comptroller's Office
Carol Boykin	State Retire. & Pension System of Maryland
Jack Ehnes	California State Teachers' Retire. System
Hon. Tom Gallagher	Treasurer, Florida
Peter Gilbert	Pennsylvania State Employees Retire. System
Laurie Hacking	Ohio Public Employees Retirement Association
Joseph Jardine	Office of the Pennsylvania State Treasurer
Hon. John Kennedy	Treasurer, Louisiana
Steve Kornrumpf	New Jersey Division of Investment
Hon. Carl McCall	Comptroller, New York
Hon. Jonathan Miller	Treasurer, Kentucky
Meredith Miller	Connecticut State Treasurer's Office
Hon. Richard Moore	Treasurer, North Carolina
Hon. Kathleen Palm	Treasurer, Hartford
George Philip	New York State Teachers' Retire. System
Richard Spiegelman	Pennsylvania Auditor General's Office
Hon. Eliot Spitzer	Attorney General, New York
Coleman Stipanovich	Florida State Board of Administration
Ann Yerger	Council of Institutional Investors

<u>By Phone:</u>

Hon. Dale McCormick	Treasurer, Maine
Hon. Randall Edwards	Treasurer, Oregon
Mike Travaglini	Office of the Massachusetts State Treasurer

(As of 8/9/02)

STATEMENT BY
PUBLIC INSTITUTIONAL INVESTORS
*   *   *
# A COMMITMENT TO
# CORPORATE REFORM

August 12, 2002

As public institutional investors responsible for the safekeeping of taxpayer and retirement funds belonging to millions of Americans, we cannot tolerate the deception and lack of integrity that have shaken confidence in our financial markets.

As representatives of over $1 trillion combined in institutional capital, we have an obligation and an opportunity to exercise the power of the purse to achieve meaningful reforms that will do all of the following: restore investor confidence in the markets; protect the public from unprecedented losses due to corporate malfeasance; and promote real long-term value in companies and growth in our economy.

Therefore, today we commit to use our power in the marketplace to bring about strong and meaningful reforms. We will mobilize our consumer power as never before to demand integrity among corporate executives and boards of directors, deter unscrupulous business practices, strengthen accountability to investors and shareholders, and bring about a renewed faith in the financial marketplace.

Today marks the beginning of a new campaign by the stewards of taxpayer and public pension funds who will work proactively to clean up corporate corruption and restore integrity to the marketplace.

As a starting point, we focused today on the following issues:

- *CONFLICTS OF INTEREST* –We pledge to root out conflicts of interest between stock research analysts and the investment banks, so that investors will have true and accurate information, and to ensure that money managers adhere to the highest standards of ethics and disclosure.

- *CORPORATE ACCOUNTABILITY* – We commit to mobilize our power as shareholders to help ensure that recently enacted reforms are fully and promptly implemented and enforced. Specifically, we will be vigilant as shareholders in seeing that the new independent director and shareholder rights reforms enacted by the federal government, the New York Stock Exchange, and NASDAQ achieve maximum impact.

- *EXPATRIATE CORPORATIONS*– We oppose the practice whereby publicly held U.S. corporations relocate offshore, in name only, to weaken shareholder protections, and will take appropriate action to thwart this egregious conduct.

Today's statement by public institutional investors is just the beginning of a renewed era of activism. It is the start of a long journey we embark upon together, and to which we are fully committed.

STATE AND PUBLIC PENSION FUND INVESTMENT PROTECTION PRINCIPLES
Adopted by New York, California, and North Carolina

A. Effective July 1, 2002, every financial organization that provides investment banking services and is retained or utilized by the State Treasurer of North Carolina, the Comptroller of the State of New York, or the State Treasurer of California (hereinafter “the State Investment Officers”), including but not limited to organizations retained by the North Carolina Public Employees Retirement Systems and the New York State Common Retirement Fund (hereinafter “the Pension Funds”), should adopt the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002 (hereinafter “the Investment Protection Principles”). In retaining and evaluating any such financial organization, the State Investment Officers will give significant consideration to whether such organization has adopted the Investment Protection Principles.

The Investment Protection Principles are as follows:

- sever the link between compensation for analysts and investment banking;
- prohibit investment banking input into analyst compensation;
- create a review committee to approve all research recommendations;
- require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination; and
- disclose in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.
- establish a monitoring process to ensure compliance with the principles

B. Effective July 1, 2002, every money management firm retained by a State Investment Officer, as a condition of future retention, must abide by the following:
1. Money management firms must disclose periodically any client relationship, including management of corporate 401(k) plans, where the money management firm could invest State or Pension Fund moneys in the securities of the client.

2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.

3. Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection Principles.

4. Money management firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions of the money management firm. Each money management firm shall provide the State Investment Officers with a copy of the safeguards plan and shall certify annually to the State Investment Officers that such plan is being fully enforced.

5. In making investment decisions, money management firms must consider the quality and integrity of the subject company’s accounting and financial data, including the its 10-K, 10-Q and other public filings and statements, as well as whether the company’s outside auditors also provide consulting or other services to the company.

6. In deciding whether to invest State or Pension Fund moneys in a company, money management firms must consider the corporate governance policies and practices of the subject company.

7. The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.